Economic Trends

Activity slows

Alberta's economy continues to moderate. The labour market has cooled and consumers are scaling back on spending. After a robust first quarter, new housing activity also looks to be slowing. Lower energy prices have curbed manufacturing and conventional oil and gas activity and pulled down the value of exports. With the decline in activity, cost pressures are diminishing for the construction sector. This month's inFocus looks at Alberta's economic performance over the last decade.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	April	2,310	+2.4%
Unemployment Rate	April	5.5%	+0.5 p.p.
CPI Inflation (unadjusted)	April	0.7%	-2.0 p.p.
Retail Sales	March	$6.4 B	-1.7%
Housing Starts (annualized)	April	32,700	-18.1%
Rigs Drilling (unadjusted)	May	51	-55.7%
Manufacturing Shipments	March	$5.9 B	-10.0%
Exports (unadjusted)	March	$7.9 B	-25.5%

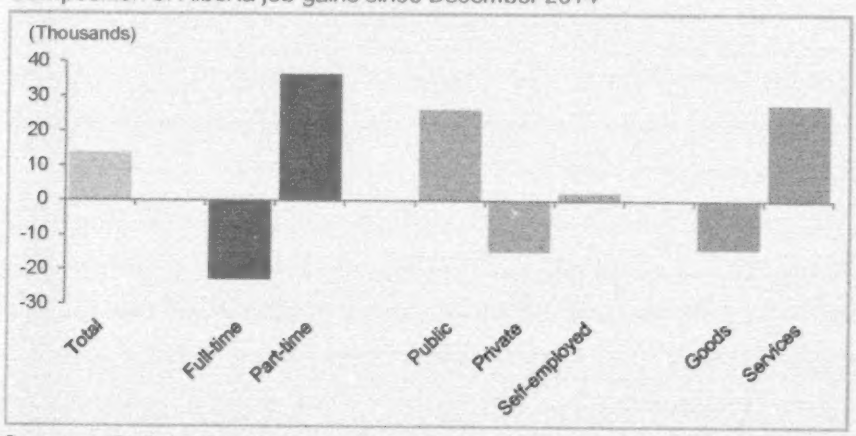
Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Job market shows weakness

Alberta's labour market is showing signs of decelerating, despite resiliency in headline employment data. In April, Alberta added 12,500 jobs, posting year-over-year (y/y) employment growth of 2.4%. Since December, employment has increased by 13,700; however, almost all the job gains have been in part time, service sector positions (Chart 1). Full time employment has fallen by 22,800, while the higher paying goods sector has shed almost 15,000 jobs. The private sector has lost 14,700 jobs since December. Job vacancies fell steeply to start the year, down 20% y/y in the three months ending February. Employment Insurance (EI) initial claims jumped in February and March, reaching highs not seen since the 2009 recession. Finally, average weekly earnings have leveled off in recent months.

Chart 1: Signs of a cooling labour market
Composition of Alberta job gains since December 2014



Sources: Statistics Canada

Housing market softening

The new housing market started the year strong, but now appears to be slowing alongside the resale market. After averaging 45,900 (annualized) starts in the first quarter, starts in April (32,700 annualized) fell to the lowest since September 2013. Multifamily starts, which led growth in the first quarter, fell to 17,000 (annualized). Unabsorbed housing in Calgary and Edmonton, a measure of inventory levels, increased through March and April; it is still low compared with the 5-year average. Resale market activity remained weak through April, and growth in new housing prices slowed to its lowest level since October 2012.

Households reducing spending

Consumers pulled back on their spending in the first quarter of 2015. Retail sales declined 2.0% y/y, mainly on lower sales at gasoline stations. The decline in gasoline prices continued to outpace sales in March. In addition, growth in motor vehicle sales has been slowing over the past 6 months. Sales were down 3.6% y/y in the first quarter. Gasoline station and motor vehicles sales make up around 40% of retail sales. Excluding those two categories,

sales were up 3.0% y/y. Inflation has been declining over the past five months on lower energy prices. It is currently sitting at 0.7% as of April.

Alberta Business Sector

Drilling activity remains depressed

The recent improvement in oil prices was not enough to lift drilling activity in North America. In May, there were 51 rigs drilling in Alberta, unchanged from April. May is normally a low period for rigs drilling, but this month's count reflected a 56% drop from May 2014 (Chart 2). Canada's rig count was 80, a 50% y/y decline, while the US rig count declined 52% y/y to 893. The rig utilization rate in Alberta was 10%, the lowest since May 2010.

Exports hurt by lower prices

Alberta exports continued their descent in March, rounding out a first quarter which saw the value of exports decline by almost 26% y/y. Lower prices for energy products, which make up around two-thirds of total exports, pulled down export values. Volumes of energy exports, however, expanded alongside increases in bitumen crude production. Excluding energy, exports increased over 8% y/y in the first quarter. Agriculture, consumer goods, and forestry products contributed to growth. Alberta sawmill production has ramped up in recent months, with exports of softwood lumber surging 40% y/y in March. Alberta exporters likely rushed to get their product across the border ahead of an anticipated 5% tariff on softwood lumber imports into the US (triggered by lower lumber prices), which came into effect in April.

Manufacturing activity wanes

Manufacturing activity in the province is cooling off. After falling sharply in January, manufacturing shipments stayed low through the first quarter, declining almost 10% over the same period last year. Shipments were dragged down by petroleum and coal, which fell 38% y/y over the same period on lower prices for petroleum products. Excluding petroleum and coal, shipments were up a mere 0.7% y/y. Increases in food and wood product manufacturing shipments were largely offset by declines in chemicals and fabricated metals. Machinery and equipment shipments have also declined in recent months, mainly due to a large drop in oil and mining equipment shipments.

Construction costs ease

Non-residential construction costs in Alberta's two largest cities subsided in the first quarter. The non-residential price index for Calgary fell 0.2% from last quarter, while Edmonton's fell 0.6%. For both cities, this was the largest quarterly decline in over four years. Construction costs for most building types were little changed from a year ago, with the exception of higher costs reported for schools.

Outside Alberta

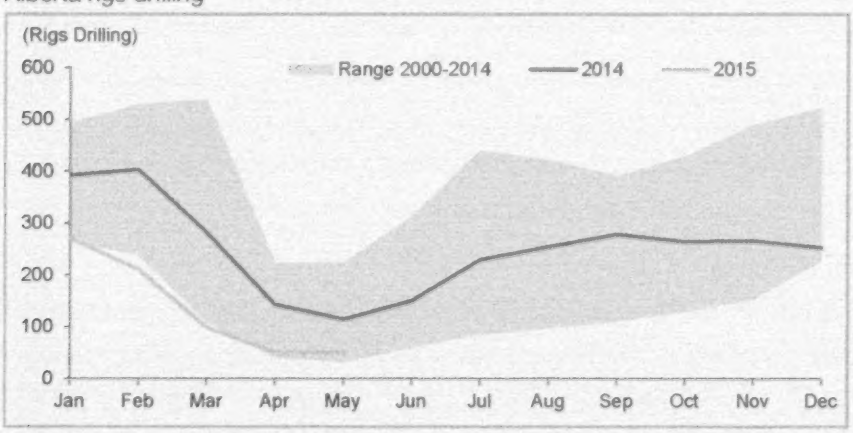
Low oil prices hit Canada's economy

After signs of slowing towards the end of 2014, the Canadian economy shrank by 0.6% (annualized) in the first quarter of 2015. A drop of almost 16% in business investment, including a steep decline in engineering structures and industrial machinery investment, showed that low oil prices are weighing on Canada's economy. Foreign trade was also a drag on growth. Household spending was slightly positive, but spending on durable goods declined for a third straight quarter (-5.5% annualized in Q1 2015). The last time real GDP contracted was in the second quarter of 2011, and prior to that, in mid-2009 as Canada emerged from the Great Recession.

Greece's fate clouds Eurozone outlook

As the economic outlook for the EU slowly improves, Greece's ongoing financial turbulence continues to create uncertainty over the monetary union's future. Negotiations have recently resumed over the bailout terms and accompanying economic reforms for Greece. If an agreement is not reached to extend the bailout, Greece will likely miss its June payments to the International Monetary Fund, face insolvency by July and could withdraw from the monetary union and return to its old Drachma. In the meantime, Greek bonds remain excluded from the European Central Bank's Quantitative Easing program, and Greece's financial stress will become more acute if the current negotiations fail.

Chart 2: Conventional oil and gas activity plummets in the province
Alberta rigs drilling



Sources: Canadian Association of Oilwell Drilling Contractors (CAODC)

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inFocus

Alberta's performance over the past 10 years

After years of exceptional growth, Alberta's economy is expected to slow significantly as a result of lower oil prices. Prior to the current slowdown, however, Alberta capitalized on its resource-based industries to position itself as the fastest growing province over the past decade. Data recently released by Statistics Canada shows that Alberta's progress was not confined to just the energy sector, as many other sectors of the provincial economy posted strong growth over the past decade.

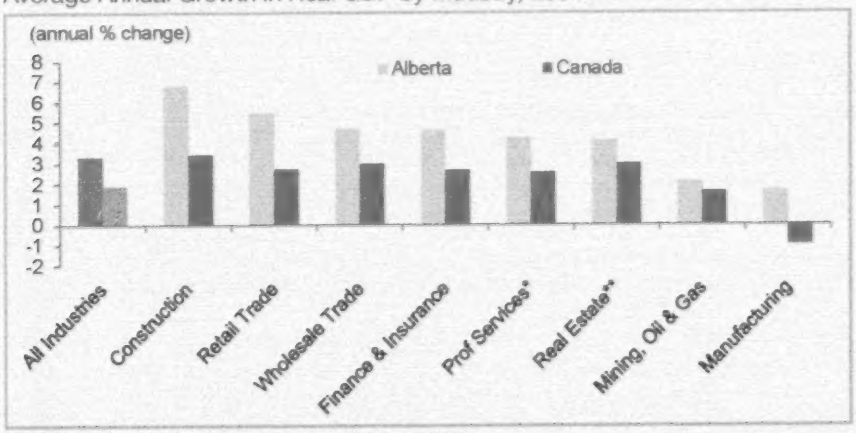
Highest GDP growth among provinces

From 2004 to 2014, Alberta posted an average real GDP by Industry growth rate of 3.3%, the highest among the provinces and well above the national rate of 1.9% (Chart 1). Alberta managed to be the top provincial performer despite being one of the hardest-hit regions during the global downturn in 2008-09.

Accounting for about one-quarter of Alberta's nominal GDP, by far the largest share among the industries and a key driver in Alberta's growth, the oil and gas extraction industry grew 2.1% per year (Chart 1). As activities in this industry surged, several industries directly benefited by providing local goods and services required for oil and gas production. Leading the way was the construction industry, which grew 6.8% on average annually, and twice as much as the national rate. Other industries also benefited, as the higher labour income helped spur *strong growth in consumer goods and services*. Retail trade, for example, grew 5.5% per year, the second-highest growth rate in the province among the major sectors.

Alberta's exceptional performance, therefore, was not isolated to one industry, but by many sectors across the economy. The province posted the highest provincial average growth in several major industries. (Table 1).

Chart 1: Alberta Posted Broad-Based Gains Above National Average
Average Annual Growth in Real GDP by Industry, 2004-14



* Professional, scientific and technical services
** Real estate and rental and leasing
Source: Statistics Canada

Manufacturing enjoyed broad-based gains

While the energy industry gets much of the attention in Alberta, the manufacturing sector grew 1.7% per year in the last 10 years, which was third-highest among the provinces. The province saw *steady gains in manufactured food products* over the past decade, while Alberta's *woods products manufacturing proved to be resilient* amidst weakness in the industry elsewhere in Canada.

Some of the strongest growth in the manufacturing sector was posted by machinery manufacturers, which saw production increase 5.7% per year on average. Leveraging on knowledge and technology from the energy sector, *these manufacturers saw their exports to the U.S. rise* as American production of oil and gas surged before the recent fall in oil prices.

What's "GDP by Industry"?

"GDP by Industry" measures the value of output generated by an industry less the value of intermediate inputs purchased from other industries. GDP is sometimes referred to as "value added" as it captures how much value is being added over and above what is used as input.

Another method to measure GDP, "GDP by Expenditure", is the official estimate of real GDP for Alberta and other regions. The estimate for 2014 will be released later in November. While this estimate differs slightly from total GDP by Industry, growth in the two series track very closely over time.

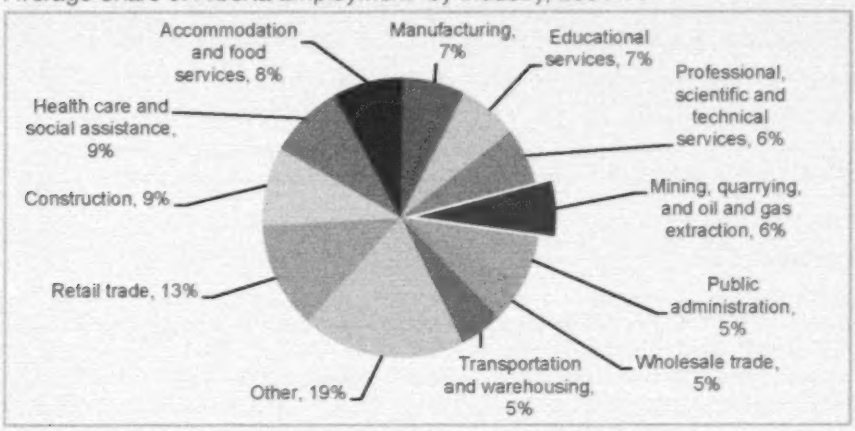
Alberta Government

May 29, 2015
Treasury Board and Finance
Economics and Revenue Forecasting

Strong growth in professional services

One of the industries that directly benefited by the robust expansion of Alberta's resource sector over the past decade was the professional, scientific and technical services industry, which grew 4.3% per year. Comprised of fields such as architecture, engineering and computer systems design, *this industry is a major contributor of business inputs* for both the oil and gas extraction industry and the oil and gas engineering construction industry.

Chart 2: Alberta Jobs Based In Many Industries; Oil & Gas Has Minor Share
Average Share of Alberta Employment* by Industry, 2004-14



* Excludes unclassified businesses and the self-employed.
Source: Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH)

Table 1: Alberta Among Top Performers in GDP and Employment Growth
Average Growth Rates and Alberta's Provincial Ranking

	Alberta Real GDP		Alberta Employment	
	Average Growth (2004-14)	Provincial Ranking	Average Growth (2004-14)	Provincial Ranking
All industries	3.3%	1	3.1%	1
Mining, oil and gas extraction	2.1%	5	4.0%	4*
Construction	6.8%	3	6.5%	3
Manufacturing	1.7%	3	1.1%	1
Wholesale trade	4.7%	3	3.2%	2
Retail trade	5.5%	1	2.5%	1
Finance and insurance	4.6%	1	3.1%	1*
Real estate and rental and leasing	4.1%	1	3.1%	1*
Professional services**	4.3%	2	3.5%	3
Educational services	2.7%	1	2.1%	1
Health care and social assistance	3.6%	1	3.0%	1
Accommodation and food services	3.5%	1	2.8%	1

* Data were not available for some provinces.
** Professional, scientific and technical services
Source: Statistics Canada

Widespread job creation

Broad-based GDP gains resulted in strong employment growth across many industries in Alberta, including the service sector. In fact, Alberta was among the top three provinces in job creation in most of the major industries over the past decade (Table 1). Leading the way was the construction industry, which saw its employment rise on average 6.5%, well above the national rate of 4.0%.

Most jobs in Alberta are in the service sector

Although the oil and gas extraction industry is by far the largest industry by GDP, it directly accounts for only about 6% of employment in Alberta (Chart 2). This industry, however, has many indirect job linkages to other sectors. The industry with the largest share of employment in the province is the retail trade industry (13%), followed by construction (9%), and health care and social assistance (9%).

Growth pauses in 2015

The industries that significantly benefitted from surging oil and gas-related activities over the past decade, however, are also some of the sectors the most impacted by the lower oil prices. Manufacturing shipments have been sluggish year-to-date; meanwhile, the professional, scientific and technical services industry lost almost 15,000 jobs from June 2014 to April 2015.

Summary

From 2004 to 2014, Alberta was the fastest growing province in Canada by a comfortable margin. While the resource sector was a major driver, the province saw broad-based growth across many industries.

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